



**BOARD OF GOVERNORS**  
**OF THE**  
**FEDERAL RESERVE SYSTEM**

WASHINGTON, D.C. 20551

DIVISION OF BANKING  
SUPERVISION AND REGULATION

**SR 84-16**

**June 15, 1984**

**TO THE OFFICER IN CHARGE OF EXAMINATIONS  
AT EACH FEDERAL RESERVE BANK**

**SUBJECT: Farm and Agricultural-Related Loans**

It is the long-standing policy of the Federal Reserve to avoid supervisory actions that may discourage banks from exercising forbearance or otherwise working with farmers and small business borrowers who are experiencing temporary difficulties in meeting their debt service obligations. This policy was reiterated in SR 83-15 (FIS), dated March 30, 1983. The purpose of this letter is 1) to underscore this policy with respect to loans to farmers and farm-related small businesses and 2) to ensure that Reserve Banks are taking appropriate steps to see that this policy is fully and consistently carried out in connection with the examination of all agricultural banks.

Some farmers and farm sector borrowers have been subject to financial pressures resulting from depressed commodity prices, declining land values and the aftermath of last summer's drought. These financial pressures are, at times, reflected by an increase in delinquent loans in the portfolios of agricultural sector banks. Some farmers who are experiencing financial difficulties face the prospect of foreclosure on their homes and family farms. Often these problems are transitory and the borrowers are able to resume payments when economic conditions in the agricultural sector improve. Under such circumstances, agricultural lenders may find that the most prudent policy is to stretch out payments and exercise forbearance rather than to take more precipitous action such as foreclosure and/or forcing a borrower into bankruptcy.

As a supervisor of State-member banks and bank holding companies, the Federal Reserve does not wish its examinations or its supervisory actions to be pursued in a manner that discourages this type of forbearance or places undue pressures on farmers. On the contrary, such forbearance is in the public interest and should be encouraged when it is consistent with safety and soundness considerations. It is requested, therefore, that you remind the Federal Reserve examiners in your District of the need to be particularly sensitive to agriculture problems at this time and to refrain from criticizing bank management for exercising appropriate forbearance in the circumstances described. Moreover, in accordance with long-standing instructions,

examiners should not recommend foreclosure or other precipitous action. Examiners should, of course, continue to evaluate the quality of these loans and, after careful review of the facts, to classify them if warranted.

Supervisory staff should also consider the general economic environment and should take into account these policies when dealing with the supervised institutions' boards of directors and when designing remedial action plans.

In order to ensure that this policy is fully and consistently carried out, Reserve Banks are instructed to modify and strengthen their review procedures for examination reports of farm sector banks. In particular, each Reserve Bank is asked to designate a special senior review examiner with a high level of expertise and experience in examining and supervising farm banks. This individual should review the examination report of each farm sector bank before it is forwarded to the bank to ensure compliance with Federal Reserve's policy. Specifically, the special review examiner should determine:

1. That farm loan classifications are based on established criteria and are well-supported by the loan write-ups and that examination reports are consistent with the policy outlined above; and
2. That the examiner's comments, conclusions or recommendations do not imply criticism of bank management for exercising an appropriate and prudent degree of forbearance.

Examination reports that are not consistent with these policies should be appropriately revised before they are forwarded to the bank's management and board of directors.

John E. Ryan  
Director

Cross Reference:

- SR 83-15 (FIS), "Home Mortgage, Farm and Small Business Loans" (*Inactive*)